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SUBJECT: AMBASSADOR'S VISIT TO NORWEGIAN CENTRAL BANK:  
STRONG ECONOMY, RICH PENSION FUND, TROUBLING BLACKLIST

SUMMARY

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1. (SBU) On March 28, Ambassador Whitney and Pol/Econ Officers visited the Norwegian Central Bank (Norges Bank), meeting with Central Bank Governor Svein Gjedrem, Deputy Governor Jarle Berge and Knut Kjaer, Executive Director of the Pension Fund (formerly the Petroleum Fund). Discussions centered on the Central Bank's role in the economy, the Norwegian economy's recent strong performance, and an overview of the Pension Fund, with the Ambassador expressing strong concern over the Fund's disproportionate "blacklisting" of U.S. companies. According to the Bank officials, Norway's expansionist economy continues to roll ahead, fueled by high oil prices that have put the Pension Fund over the \$200 billion mark. Through the Pension Fund, which accumulates tax revenues from the petroleum sector, Norway hopes to leave a legacy to future generations after the resources are depleted. As the Ambassador stressed, however, the Fund's divestment of investments in sixteen firms, ten of which are American, on ethical grounds is troubling. Fund Executive Director Kjaer himself has mixed feelings about the divestments, on the one hand striving to maintain the broadest possible investment options but, on the other, defending the Norwegian "consensus" that certain corporate behavior, e.g. cluster bomb production, is unethical. The Ambassador also encouraged the Bank's already active involvement in transparency and other initiatives to assist resource-rich developing nations in managing their wealth responsibly. End summary.

PETROLEUM-RICH NORWAY IN ENVIABLE ECONOMIC POSITION

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2. (SBU) Governor Gjedrem told the Ambassador that the Central Bank had three core responsibilities: establishing monetary policy and setting interest rates, managing the Pension Fund, and overseeing the financial sector's payments system, including acting as lender of last resort and ensuring liquidity to the financial markets. The bank had reduced its work force in the last several years, partly due to closure of regional offices and outsourcing of currency printing. The Bank was led by a Board of Governors consisting of the Governor, Deputy Governor and five external members (currently two economics professors and three

business community members).

13. (SBU) Gjerdem emphasized that Norway's economy remained robust, stimulated by low interest rates (directed by an inflation target of 2.5 percent) and strong domestic growth (including sectors outside of the prosperous oil industry). The petroleum sector generated 25 percent of Norway's GDP, though it employed only a very small percentage of the labor force. Gjerdem also noted that Norwegian per capita income was extremely highly (roughly \$55,000-\$60,000 per person).

#### GOVERNMENT PENSION FUND AMONG THE WORLD'S RICHEST

14. (SBU) Gjerdem told the Ambassador that the government's tax take of petroleum sector profits was effectively 60-70 percent, all of which went directly into the Government Pension Fund. The Fund, currently valued at about \$210 billion, was invested entirely abroad, 40 percent in equities and 60 percent in fixed-income securities. The projected strength of the Fund is staggering -- with increases forecast at \$50 billion per year for another 4-5 years if high oil prices hold, the fund will equal Norway's entire GDP (currently about USD 260 billion) by 2008 and reach twice GDP by 2015. The Fund's real return (currently about 4 percent) was given over to the government's budget, while capital was preserved for future generations. Gjerdem stressed that the Fund was strictly apolitical, so it did not invest domestically in spite of many demands to do so. He said Norway was committed to avoiding the mistakes of countries that earned resource-based "easy money" only to see their national competitiveness undermined, citing such historical examples as a massive, but destructive, New World gold influx to 16th century Spain and wastage of billions of petrodollars by oil-rich Middle Eastern states in the 1970s and 1980s.

Over-reliance on natural resources led to many failures, including an inability to produce goods and services, imprudent investments, or over-building the welfare system. Demographics posed the key future challenge for the Pension Fund, as an aging Norwegian population would place greater demands on the welfare/pension system.

#### CONCERNS ABOUT PENSION FUND'S "BLACKLISTING" OF U.S. FIRMS

15. (SBU) Background on Pension Fund "Blacklist": In 2004, the Ministry of Finance adopted ethical guidelines for Pension Fund investments that require the Central Bank to exclude investments in (or divest itself from) companies that engage in certain activities (e.g. production of cluster bombs and nuclear weapons) or that violate "fundamental ethical norms." Over the last year, the Ministry has instructed the Central Bank to divest shares in 16 companies - 10 of which are American. The U.S. companies affected are: Boeing, Honeywell, Northrup Grumman and United Technologies (for alleged involvement in nuclear weapons production); Lockheed Martin, General Dynamics, Raytheon, L3 Communications and Alliant Techsystems (for alleged production of cluster bomb components); and Kerr-McGee (for concluding an oil concession deal with Morocco covering the disputed territory of Western Sahara). The total disinvestment in U.S. firms amounts to \$853 million. The other six blacklisted firms are European. The Embassy has been working with the American Chamber of Commerce and a number of concerned companies to address the blacklisting issue. We have gained informal assurances from the Ethics Advisory Council that it is not considering divestment from U.S. petroleum firms operating in Norway, though other, smaller Norwegian investment funds have blacklisted some (mainly for alleged bribery in Equatorial Guinea).

16. (SBU) The Ambassador raised concerns about blacklisting American companies in a separate meeting with Pension Fund Executive Director Kjaer. The Ambassador said labeling companies "unethical" was problematic and put Norway on a "slippery slope." He noted, for example, that the Norway was

pushing hard for more Joint Strike Fighter project contracts from Lockheed Martin, a company branded as unethical by the Pension Fund. The Kerr-McGee case was another troubling example, as the firm seemed to be blacklisted for purely political reasons, i.e. its agreement with Morocco to explore for petroleum offshore the disputed territory of Western Sahara.

17. (SBU) Kjaer demurred, asserting that the Ministry of Finance made the ethics decisions, while the Fund's managers were concerned only with financial operations. He clearly had mixed feelings about the ethical guidelines, noting that the Bank preferred having "as big an investment universe as possible" and that he personally favored a "high threshold," particularly given there were difficult "borderline" issues involved. On the other hand, Kjaer asserted there was "widespread consensus" in Norway about the exclusions and that it was "perfectly legal and acceptable" to deny support to companies that, for example, manufactured cluster bombs. He added that companies involved in manufacturing such weapons should "look inward." They could even benefit by shedding such product lines, given the potential financial impact of a black spot on their reputations. The Ambassador noted that while Norwegians may have reached some consensus about the blacklist, the impact fell disproportionately on American firms with few local defenders, and it was certainly not the case that half of the unethical companies in the world were American.

SHARING THE NORWEGIAN MODEL WITH THE DEVELOPING WORLD  
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18. (SBU) Gjerdem and Kjaer both noted that the Bank and Pension Fund were taking an active part in bilateral and multilateral transparency and training initiatives for resource-rich developing countries to assist them in managing their wealth responsibly. Officials from many countries, including Iraq, Kazakhstan and others, had visited the Bank

to consult on the benefits of Norway's "petroleum sector model." Kjaer cited the keys to successful petroleum sector management: transparency, clear investment benchmarks, strict division between business and politics, and establishing a corporate culture and business model for petroleum fund management. The Ambassador noted the positive example Norway set for other oil-rich nations and encouraged the Bank's assistance efforts.

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WHITNEY